

IAF Advisors
Energy Market Outlook
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Price Action: Prices fell as the potential implications of Hurricane Sandy were quite bearish. The November contract shed 21.7 cents (6.0%) to \$3.400 on a 29.3 cent range.

Price Outlook: Since 2000, 15 weeks have seen a new weekly high 5 weeks in a row, the current situation. Of those, just 6 weeks witnessed another new weekly high. Considering that last week established that new high by just a single tick and the settle price of \$3.40 is now over 21 cents below the high, a new high for a continuation of the current string is considering highly unlikely. Rather, with updated weather forecasts showing temperature moderation, a new low below \$3.355 is more probable. CFTC data indicated a continued increase in the speculative net long position as momentum early in the week remained positive. Total open interest rose above 5.2 million contracts as of October 23. The current level is lofty and considering the weak price action, some liquidation may now be in the works.

Weekly Storage: US working gas storage rose 67 BCF for the week ending October 19. Current inventory levels of 3,843 BCF now rise 127 BCF (3.4%) above last year while surpassing the 5 year average by 244 BCF (6.8%).

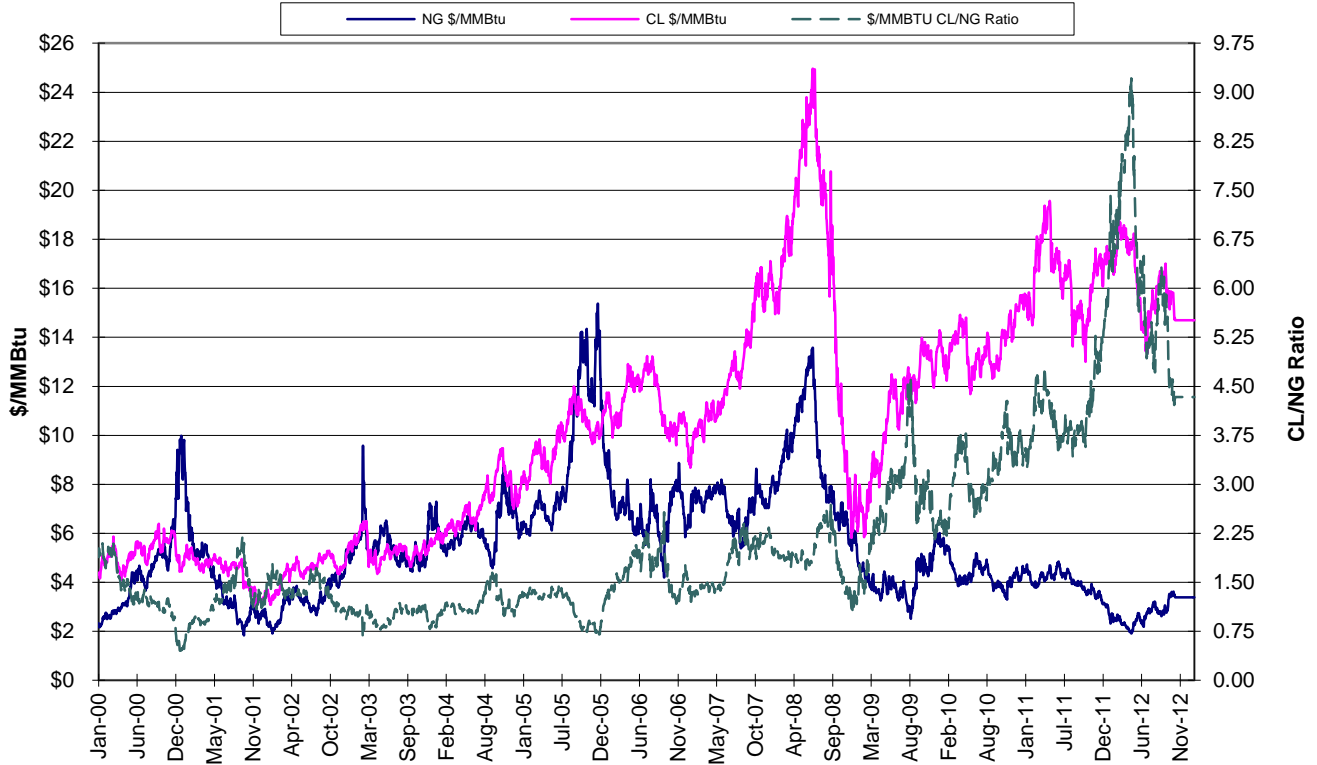
Storage Outlook: The 67 BCF injection was only the 4th of the traditional injection season to eclipse the 5 year average. Still, the current level remains just 9 BCF below the all-time peak and with injections forecasts into early November, a new record peak is a fore gone conclusion. This has been the case throughout 2012 and is nothing new. The dramatic reduction in the YOY storage surplus has remained supportive and storage levels are projected to fall below last year by early December.

Supply Trends: Total supply fell 0.1 BCF/D to 67.5 BCF/D. US production was unchanged while Canadian imports fell. Mexican exports were higher. The US Baker Hughes rig count fell by 13 to 1,826 with both oil and natural gas activity lower. However, Canadian activity rose and thus the total North American rig count increased by 2 to 2,196, which now trails last year by 322. The higher efficiency US horizontal rig count fell 9 and at 1,105 falls 50 behind last year.

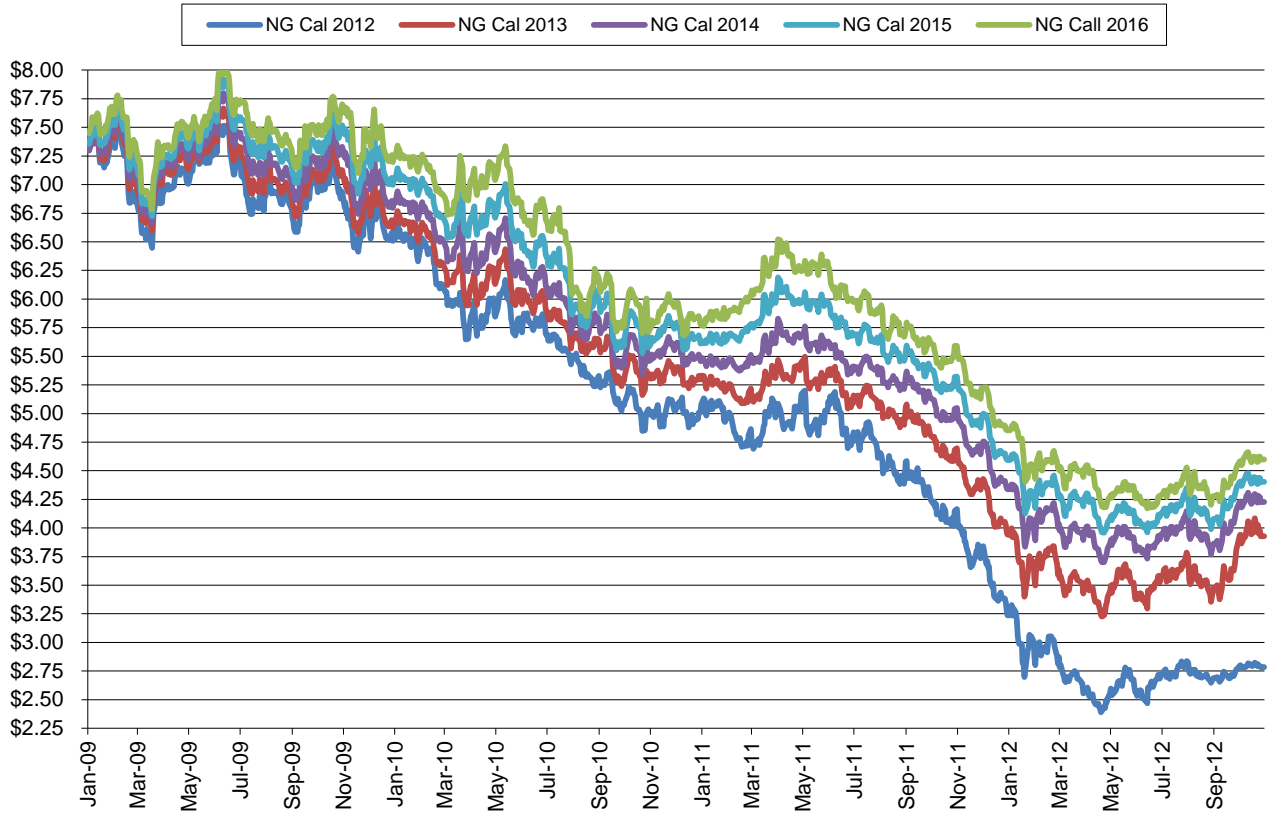
Demand Trends: Total demand fell 4.1 BCF/D to 57.5 BCF/D. All natural gas demand sectors registered a decrease. Electricity demand rose 126 gigawatt-hrs to 70,426, which exceeds last year by 71 (0.1%) while trailing the 5 year average by 1,422 (2.0%). The impacts of Hurricane will potentially be very bearish with widespread power outages and damages reducing demand.

Other Factors: The S&P 500 index slipped as market uncertainty remains. Initial 3rd quarter GDP was slightly better than expected at 2%, a still tepid pace by historical measures.

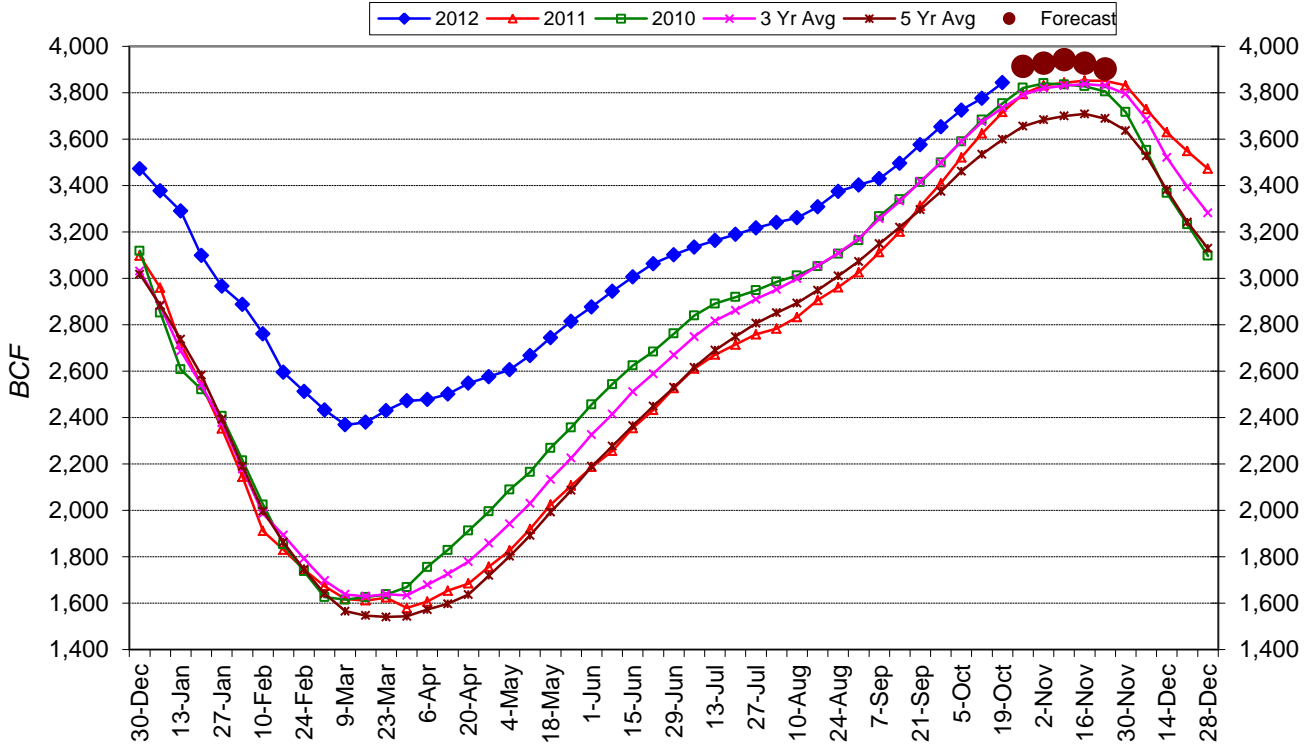
\$/MMBtu Ratio of NYMEX CL and NG



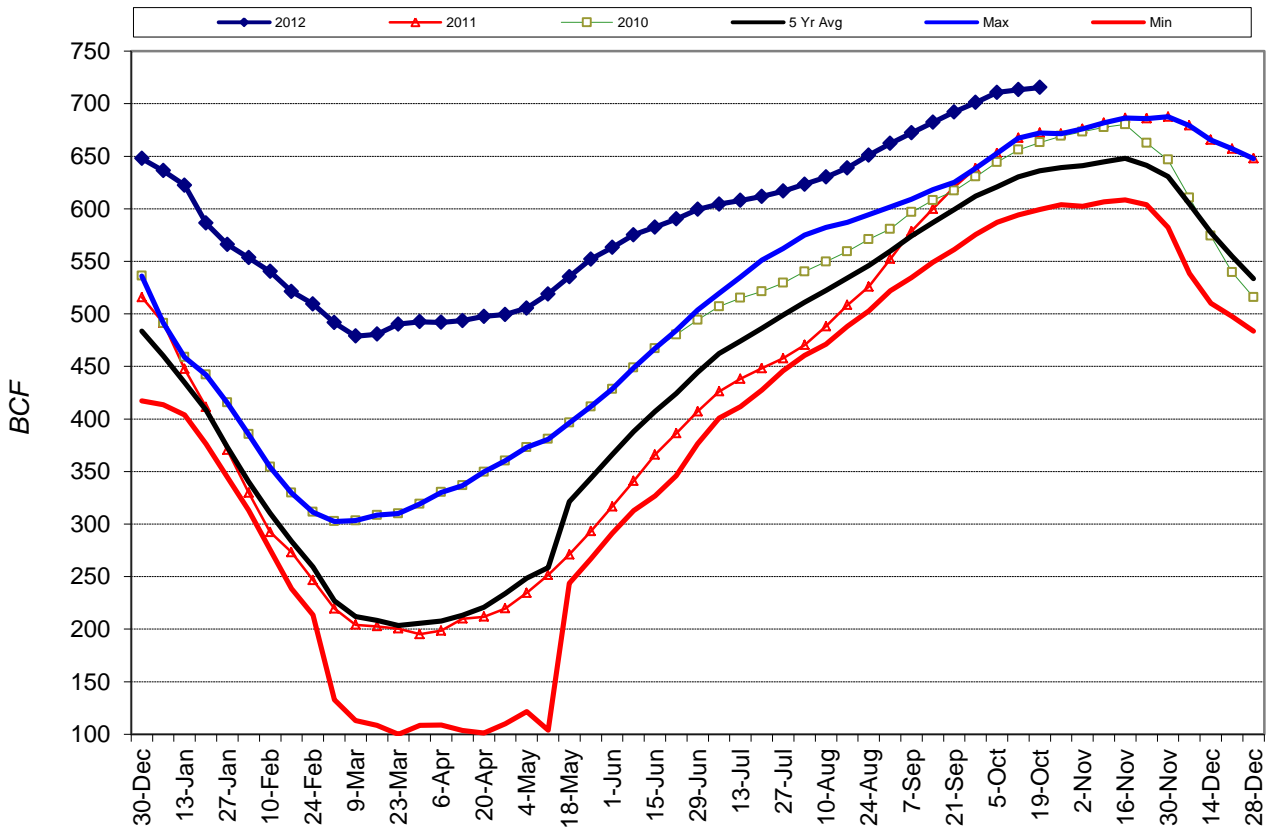
NYMEX Calendar Strips



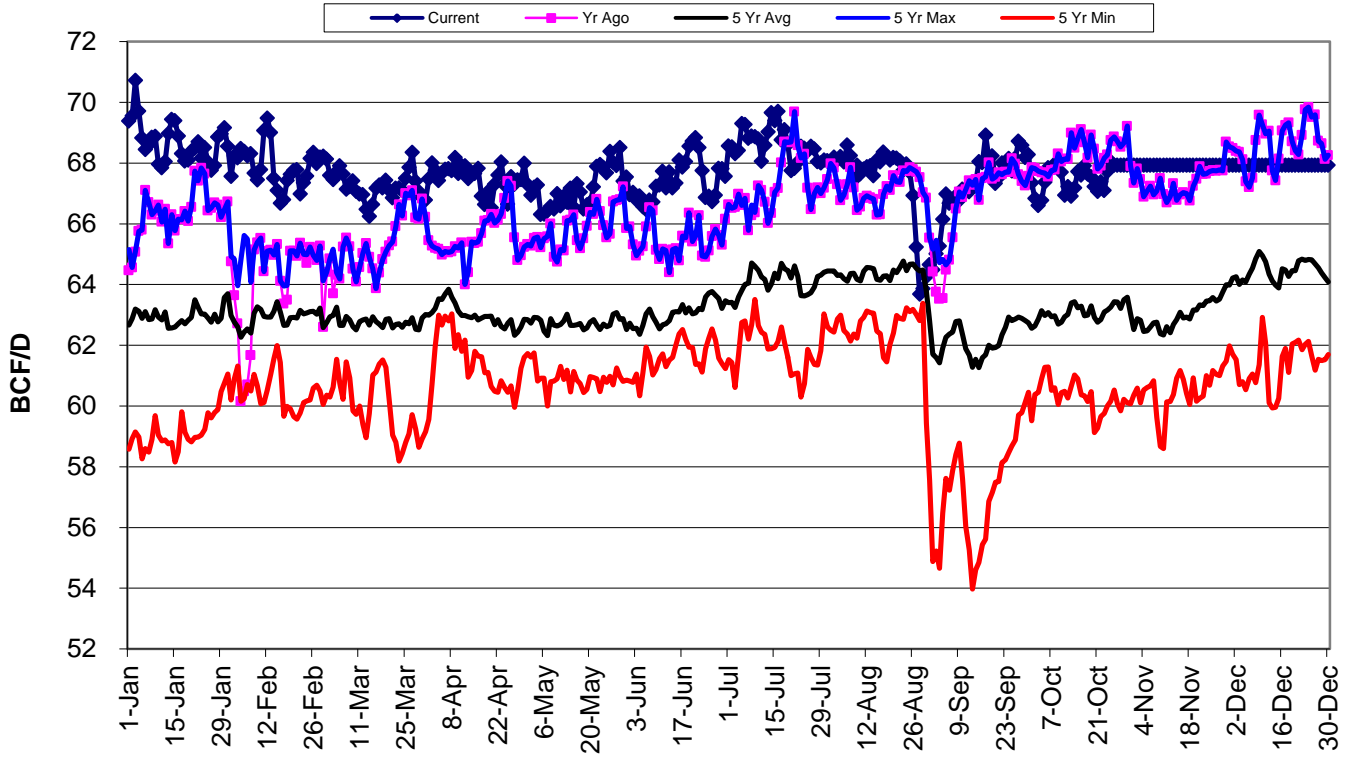
US Working Gas Storage - Source - EIA



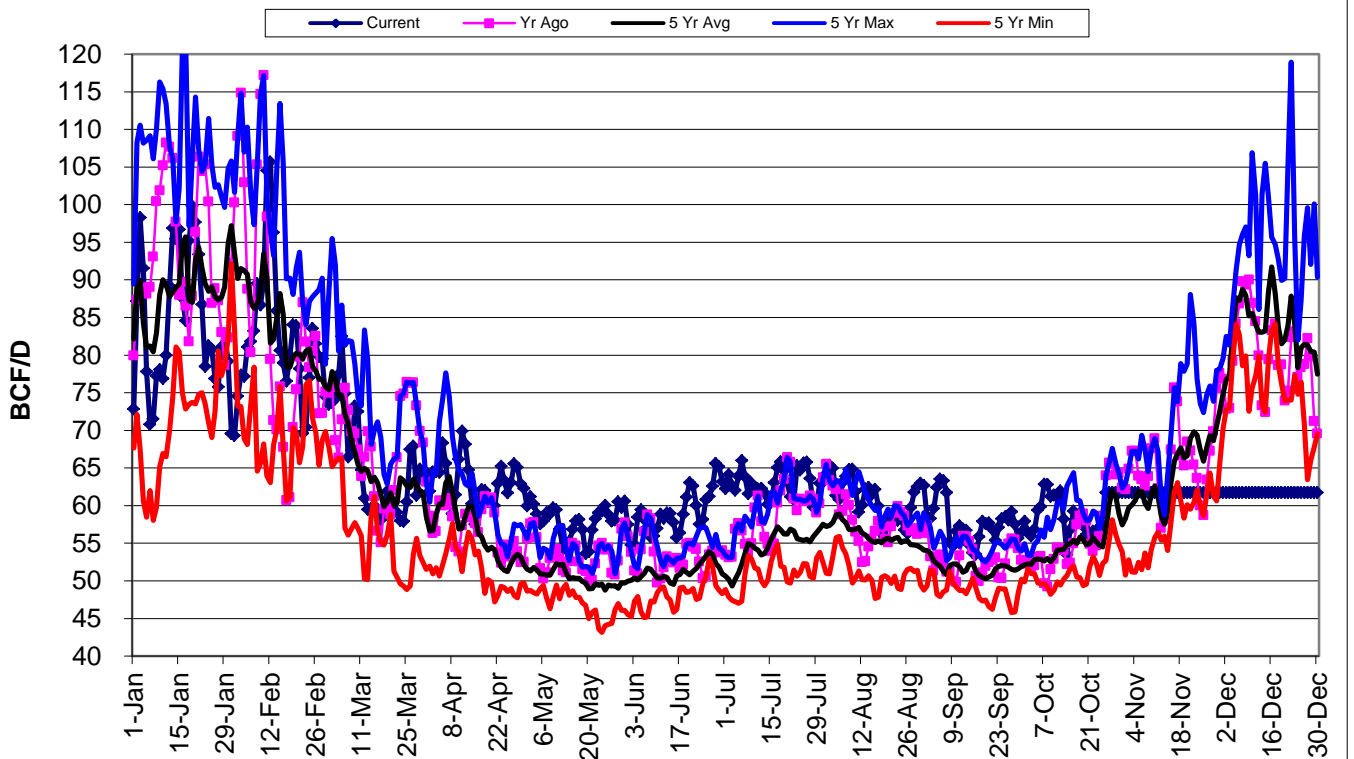
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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